



**STATE OF UTAH INSURANCE DEPARTMENT
REPORT OF FINANCIAL EXAMINATION**

of

UNITED DENTAL CARE OF UTAH, INC.

of

Salt Lake City, Utah

as of

Exam Date December 31, 2012



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June 5, 2014

Honorable Todd E. Kiser
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2012, has been made of the financial condition and business affairs of:

UNITED DENTAL CARE OF UTAH, INC.
Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2009, through December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination work papers. All material accounts and activities of the Organization were considered in accordance with the requirements of the risk-focused examination.

Examination Procedure Employed

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Organization by obtaining information about the Organization including corporate governance, identifying and assessing inherent risks within the Organization and evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All

accounts and activities of the Organization were considered in accordance with the risk-focused examination process.

Status of Prior Examination Findings

The previous examination report as of December 31, 2008, dated January 13, 2010, was distributed to the board of directors on May 27, 2010. There were no outstanding findings from the previous exam report.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings during the examination time period.

ORGANIZATION HISTORY

General

United Dental Care of Utah, Inc. is a limited health plan organization, which contracts with independent practitioners to provide dental services to its members. The Organization was organized on March 24, 1986, in the state of Utah as U.S. Dental Plan. On November 27, 1995, United Dental Care, Inc. acquired U.S. Dental Management, Inc., the Organization's parent. On December 28, 1995, United Dental Care, Inc. became the sole shareholder of U.S. Dental Plan, Inc. On February 28, 1996, the Organization's name was changed to United Dental Care of Utah, Inc.

On September 11, 1998, United Dental Care, Inc. was acquired by Protective Life Corporation (PLC), an insurance holding company and ultimate parent. On October 1, 2000 the issued shares of common stock of the Organization were transferred to Protective Life Insurance Company. There was no change in the ultimate parent from PLC. On December 31, 2001, the Organization became a wholly owned subsidiary of Dental Care Holding, Inc., an insurance holding company and effective October 17, 2005, Dental Care Holdings, Inc. merged with Interfinancial, Inc., which made the Organization a wholly-owned subsidiary of Interfinancial, Inc.

Subsequent to the December 31, 2012 exam time frame, ownership of the Organization transferred from 100% directly owned by Interfinancial, Inc. to 100% owned by Union Security Insurance Company during the first quarter of 2013. Union Security Insurance Company is a wholly-owned subsidiary of Interfinancial, Inc.. Interfinancial, Inc. is a wholly-owned subsidiary of Assurant, Inc., the current ultimate parent.

The Organization is a stock insurance company operating in the state of Utah. The Organization is licensed as a limited health plan organization, which contracts with independent practitioners to provide dental services to its members offering prepaid dental plans providing different levels of dental coverage, including specialty care. The

Organization is marketed to employers primarily through agents, brokers and benefit consultants.

The Organization contracts with dentists ("providers") for dental services to be provided to its members. Provider capitation consists of monthly fees paid to providers and is expensed in the month in which the provider is obligated to render dental services. Emergency services to members while temporarily out of their provider's area, as well as specialty services not covered by capitation fees, are recorded as incurred.

Dividends and Capital Contributions

During the period of examination, there were no dividends to stockholders or capital contributions.

Mergers and Acquisitions

There were no mergers or acquisitions during the exam period of examination.

CORPORATE RECORDS

Minutes of meetings of stockholders, directors, and committees were reviewed for compliance and support. The minutes approve and support Organization's transactions and events. The Utah Insurance Department examination report as of December 31, 2008, dated May 24, 2010, was distributed to the board on May 27, 2010.

MANAGEMENT & CONTROL

(3). The bylaws of the Organization indicated the number of directors may be three

2012: The following persons served as directors of the Organization as of December 31,

<u>Name and Residence</u>	<u>Principal Occupation</u>
Stacia N. Almquist Shawnee, KS	President United Dental Care of Utah, Inc.
James V. Barrett Birmingham, AL	Vice President Union Security Insurance Company
Corinne G. Hanson Plano, TX	Director of Quality Improvement Union Security Insurance Company

Effective January 1, 2004, the Organization was granted a waiver from the requirement under Utah Code Annotated (U.C.A.) 31A-5-407(2) that a majority of its board of directors be residents in the state of Utah. This waiver is still in effect.

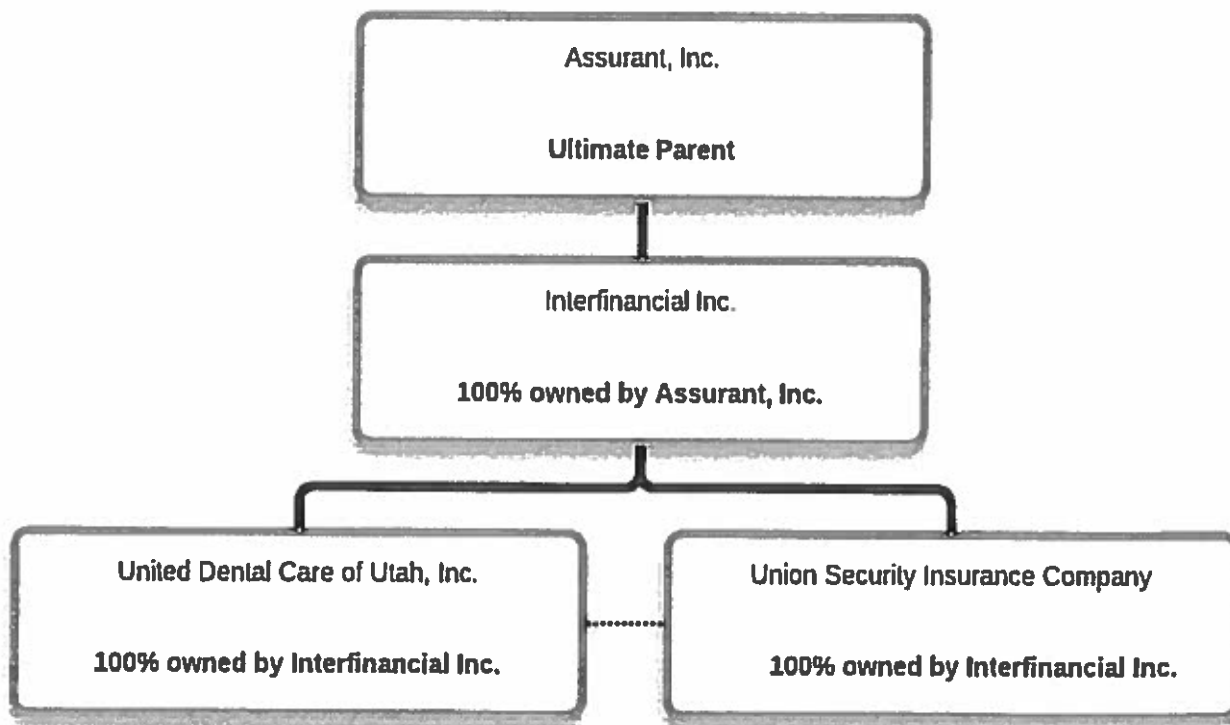
Officers of the Organization as of December 31, 2012, were:

<u>Principal Officer</u>	<u>Office</u>
Stacia N. Almquist	President
James V. Barrett	Vice President
Gary L. Lau	Vice President
Kenneth D. Bowen	Secretary
Amy J. Goerke	Treasurer

As of December 31, 2009, there were no committees of the board of directors. An audit committee is required by Utah Code Annotated (U.C.A.) 31A-5-412. This requirement is waived by (U.C.A.) 31A-5-407(4).

AFFILIATED COMPANIES

The Organization is a member of an insurance holding company system. The ultimate controlling parent is Assurant Inc. The Organization is wholly owned by Interfinancial, Inc. a wholly owned subsidiary of Assurant, Inc. An organizational chart illustrating the holding company system follows:



Subsequently the Company has been moved to 100% owned by Union Security.

Transactions with Affiliates
Administrative Services Agreement

Pursuant to the Administrative Services Agreement by and between Union Security Insurance Company and the Organization effective January 1, 2002 and as amended January 1, 2008, Union Security Insurance Company agrees to provide administrative services as may be necessary and appropriate for the business operations of the Organization. In return for services provided, the Organization agrees to pay Union Security the fully allocated costs for such services. The administrative services includes, but is not limited to, provider services, member and client services, sales and marketing services, information technology services, financial services, legal services and government relations, human resources, office services and management services.

Investment Management Agreement

Pursuant to the Investment Management Agreement by and between Assurant, Inc. and United Dental Care of Utah, Inc. as of January 1, 2002 and as amended November 3, 2008, Assurant, Inc., agrees to provide investment management services as the Organization may request or Assurant, Inc. may deem appropriate for the proper administration of the Organization's investment portfolio. All investment transactions will be made in conformity with the Organization's investment and regulatory Guidelines.

Tax Allocation Agreement

Pursuant to a Federal Tax Allocation Agreement effective September 13, 2007, for all tax periods ending on or after the dates listed in the Tax Allocation Agreement, Assurant, Inc. and the companies listed within the Tax Allocation Agreement file a consolidated federal income tax return. The consolidated group's tax liability is allocated among certain regulated entities and other participating affiliates in compliance with U.S. Treasury Regulations Sections 1.1552-1(a)(2), 1.1502-33(d)(1) and 1.1502-33(d)(3), and the Tax Allocation Agreement provides for allocation adjustments in the event of loss and credit carry backs and deficiencies and overpayments determined after an audit.

FIDELITY BOND AND OTHER INSURANCE

The Organization is a named insured under a policy providing \$10,000,000 coverage for losses associated with employee dishonesty. This coverage is in excess of the \$50,000 minimum fidelity coverage suggested by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Organization does not provide any employee benefit plans as staffing is provided through the administrative services agreement discussed above.

TERRITORY AND PLAN OF OPERATION

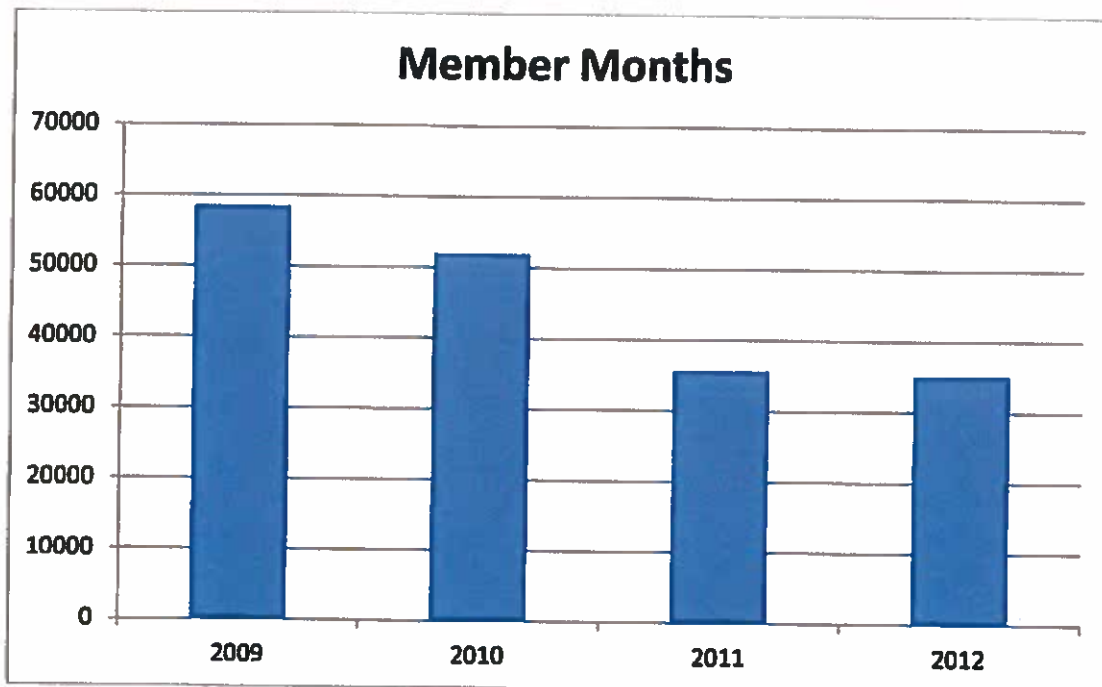
The Organization is authorized to operate in the State of Utah as a limited health plan, providing different levels of dental coverage, including specialty care. The Organization does not operate in any other jurisdiction. The Organization contracts with dentist for dental services to be provided to its members via capitation agreements. Dentist capitation consists of monthly fees paid to providers and is expensed in the month in which the dentist is obligated to render dental services. Emergency services to members while temporarily out of the provider's area, as well as specialty services not covered by capitation fees are paid as incurred. The Organization's products are marketed to employers primarily through agents, brokers and benefit consultants.

GROWTH OF ORGANIZATION

During the period of this examination the Organization has shown consistent decrease in growth as shown in the tables below.

Membership has shown decreases in growth.

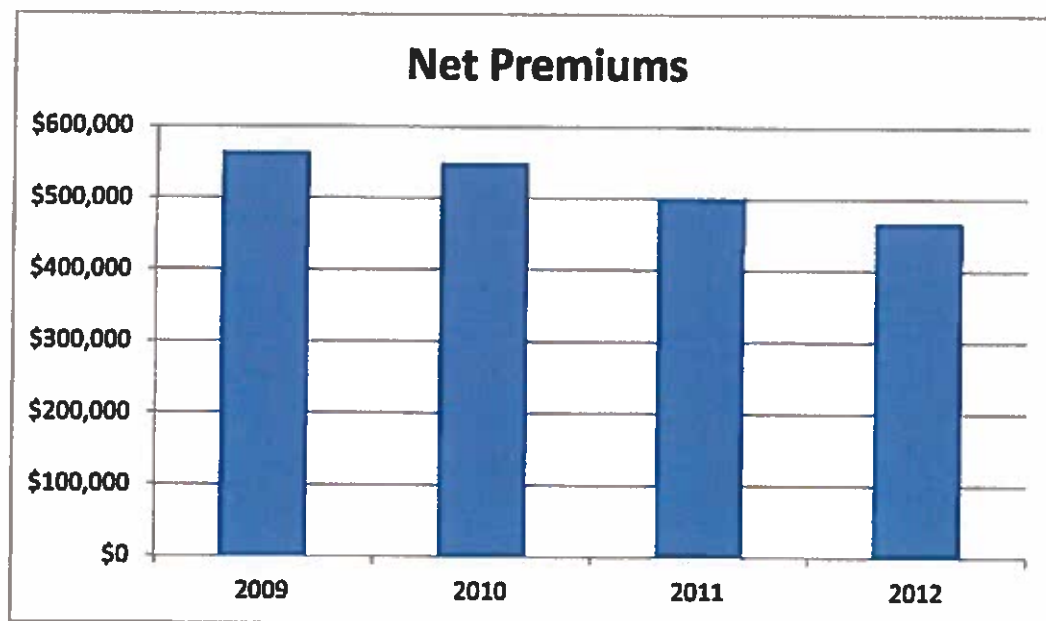
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Member Months	58,545	52,015	35,742	35,215



The decrease in growth is the effect of a highly competitive marketplace.

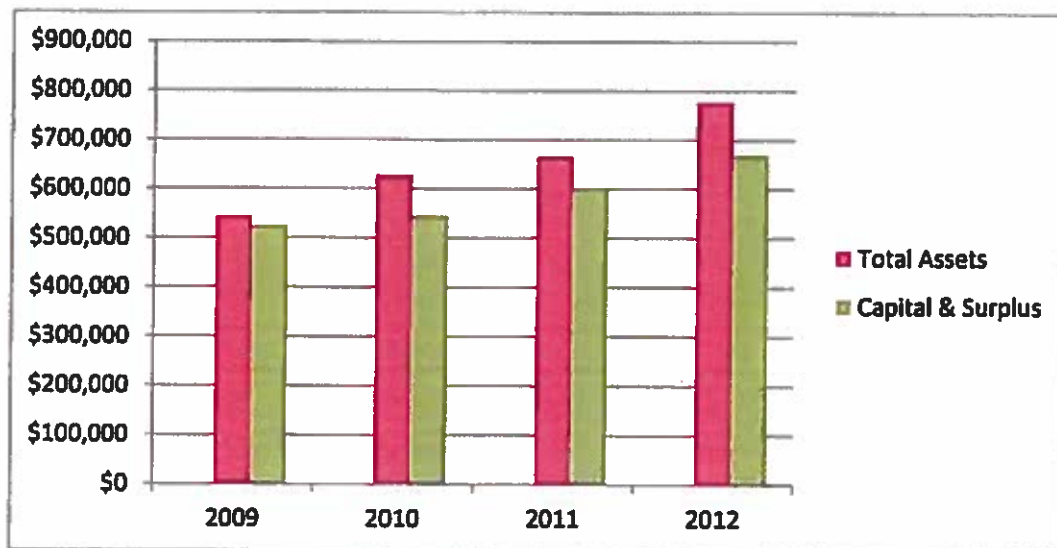
Premiums earned have consistently decreased, which reflects the decrease in membership.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Net Premiums	\$564,551	\$549,639	\$498,408	\$467,259



Total Assets have shown consistent gains. As of the date of examination, the investment portfolio consists primarily of bonds and cash, which reflects very conservative investment decisions. Surplus has shown moderate increases as a reflection of the conservative investment decisions.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Assets	\$543,802	\$628,439	\$665,348	\$777,673
Capital & Surplus	\$525,585	\$564,629	\$603,268	\$671,104



REINSURANCE

As of December 31, 2012, the Organization did not accept or cede reinsurance.

ACCOUNTS AND RECORDS

Union Security Insurance Company, an affiliate, provides all administrative services as may be necessary and appropriate for the business operations of the Organization. The administrative services include provider services, member and client services, sales and marketing services, information technology services, financial services, legal services and government relations, human resources, office services and management services.

The Organization's general ledger was maintained on an accrual basis. The examiner footed the Organization's general ledger trial balance and reconciled it to the balance sheet and income statement contained in the December 31, 2012 Annual Statement. Individual financial statement accounts for the years covered in the examination period were reviewed and reconciled as deemed necessary.

An independent certified public accounting firm audited the Organization's records during the period covered by this examination. Audit reports generated by the auditors for the years 2009 through 2012 were made available for the examiner's use.

STATUTORY DEPOSITS

As of December 31, 2012, the Organization maintained a deposit on behalf of the department in an amount greater than its minimum capital requirement of \$10,000, as required by U.C.A. 31A-8-209(2)(a). The deposit maintained on behalf of the department as of December 31, 2012 was as follows.

	Description	Par Value	Market Value
For the benefit of all Policyholders:	US Treasury Note	\$25,000	\$25,000

FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2012

**STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2012**

RECONCILIATION OF CAPITAL AND SURPLUS – 2009 through 2012

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

UNITED DENTAL CARE OF UTAH, INC.
BALANCE SHEET
as of December 31, 2012

Bonds	\$ 624,988
Cash and short-term investments	91,716
Amounts due from parent, subsidiaries and affiliates	30,817
Investment income due and accrued	104
Net Deferred Tax Asset	27,494
Uncollected premiums and agent balances	2,554
Total assets	<u>\$ 777,673</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Claims unpaid	\$ 5,650
Unpaid claims adjustment expenses	68
General expenses due or accrued	75,357
Current federal and foreign income tax payable	831
Amount due to parents, subsidiary and affiliates	58
Premiums received in advance	24,605
Total liabilities	<u>106,569</u>
Common capital stock	10,000
Gross paid in and contributed surplus	361,487
Unassigned funds (surplus)	299,617
Total capital and surplus	<u>671,104</u>
Total liabilities, capital and surplus	<u>\$ 777,673</u>

UNITED DENTAL CARE OF UTAH, INC.
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2012

	<u>Amount</u>	
	<u>Total</u>	<u>Notes</u>
Net premium income	\$ 467,259	
Total revenues	<u>467,259</u>	
Other medical and hospital	<u>234,471</u>	
Subtotal	<u>234,471</u>	
Less:		
Total medical and hospital	<u>234,471</u>	
Claims adjustment expenses	<u>1,893</u>	
General administrative expenses	<u>161,379</u>	
Total underwriting deductions	<u>397,743</u>	
Total underwriting gain or (loss)	<u>69,516</u>	
Net investment income earned	<u>209</u>	
Net investment gains or (losses)	<u>209</u>	
Net income or (loss) before federal income taxes	<u>69,725</u>	
Federal and foreign income taxes incurred	<u>31,973</u>	
Net income (loss)	<u>\$ 37,752</u>	

UNITED DENTAL CARE OF UTAH, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
2009 through 2012

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Per Exam 2012</u>	<u>Notes</u>
Capital and surplus prior reporting year	\$ 493,966	\$ 525,585	\$ 564,629	\$ 603,268	
Net income or (loss)	35,119	35,248	40,808	37,752	
Change in nonadmitted assets	(3,482)	(9,066)	(9,172)	24,266	
Change in net deferred income tax	<u>-18</u>	<u>12,862</u>	<u>7,003</u>	<u>5,818</u>	
Net change in capital and surplus	<u>31,619</u>	<u>39,044</u>	<u>38,639</u>	<u>67,836</u>	
Capital and surplus end of reporting year	<u>\$ 525,585</u>	<u>\$ 564,629</u>	<u>\$ 603,268</u>	<u>\$ 671,104</u>	

* Per the regulatory financial statements filed with the Utah Insurance Department.

NOTES TO FINANCIAL STATEMENTS

Capital and surplus

\$671,104

The Organization's capital and surplus was determined to be the same as that reported in the Organization's Annual Statement as of December 31, 2012. No financial adjustments were determined necessary for examination purposes.

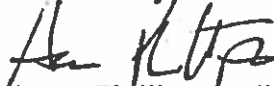
SUMMARY OF EXAMINATION FINDINGS

No significant findings were identified during the examination.

ACKNOWLEDGEMENT

Aaron Phillips, CFE, CISA, Audit Manager for the Utah Insurance Department performed the information systems review. Aaron Phillips, CFE, CISA, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Organization.

Respectfully Submitted,



Aaron Phillips, Audit Manager
Utah Insurance Department